



# Financial Audit: Workers' Compensation

King County Auditor's Office  
Bert Golla, Senior Financial Auditor  
Ron Perry, Principal Lead Auditor  
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# Findings

- Financial reserves are below estimated claims liabilities and deficit is growing
  - Deficit of \$9 million compared to Human Resources Division's estimates
  - Deficit of \$44.7 million compared to actuarial estimates
- Actuarial estimates were not disclosed in county financial statements
- Rates are generally fair and equitable but some adjustments needed
- Internal controls: insufficient review of warrant register and approved bills and invoices
- Fidelity bond may be needed

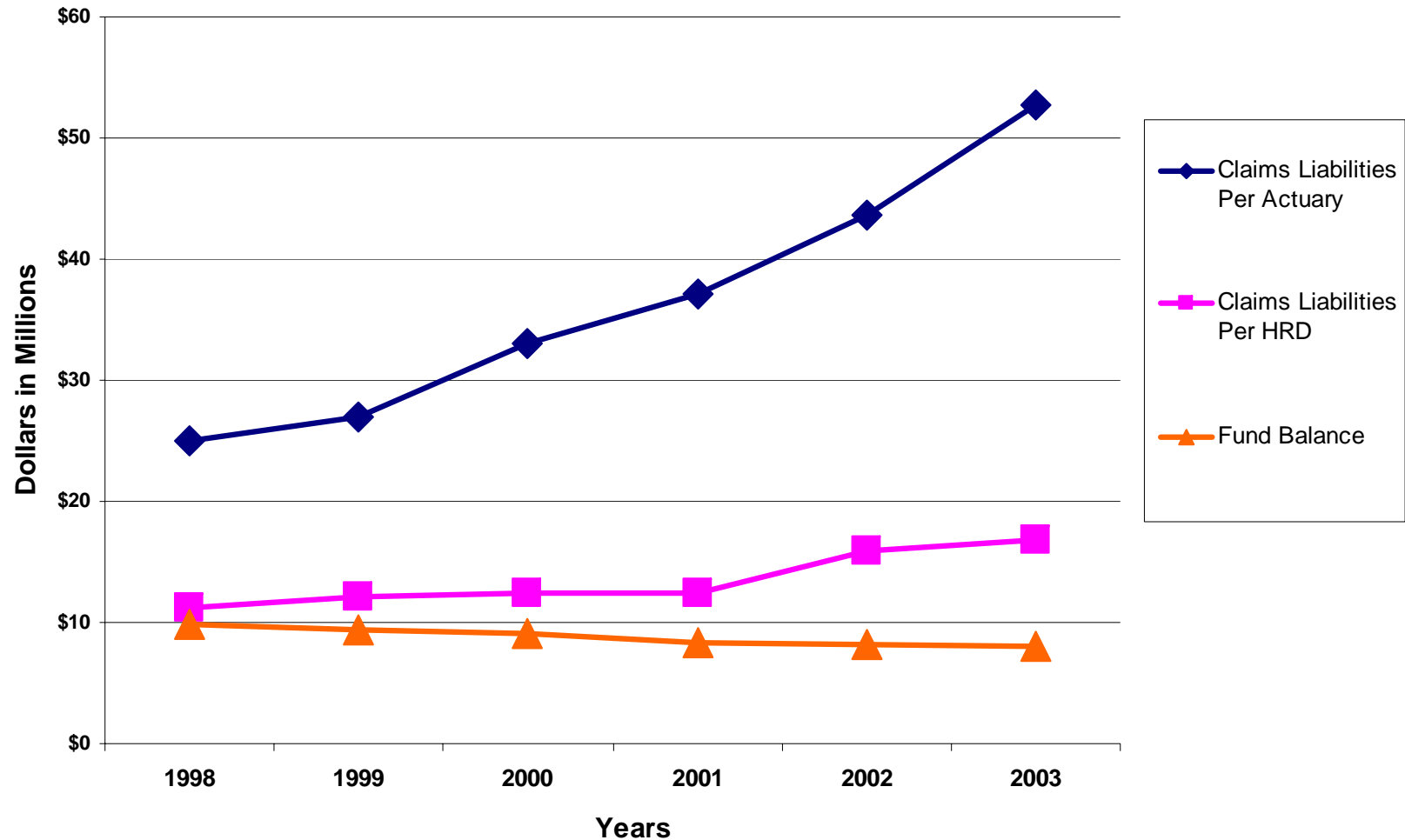


# Reserves Are Insufficient to Meet Estimated Future Costs of Claims

- |   |                  |
|---|------------------|
| ■ Actuarial estimate of future claims costs | ■ \$52.7 million |
| ■ HRD estimate of future claims costs       | ■ \$17 million   |
| ■ Fund balance                              | ■ \$8 million    |



# Increasing Fund Balance Deficit





# Recommendations 1 & 2

- County should develop a multi-year plan for building up its reserves.
- Reporting of actuarial estimates in county financial statements should conform to generally accepted accounting principles.



# Workers' Compensation Rates

- Generally fair and equitable
  - Some jobs assigned with incorrect risk codes
  - Risk code charged with lower premium rate than its claims experience
  - Transit and WTD did not use risk code and job classification system to distribute costs



# Recommendations 3-6

- Review and adjust risk code classifications
- Develop written classification plan
- Use 5-year average of claims loss experience to calculate rates
- Evaluate use of risk codes and job classifications to calculate rates for Transit and WTD



# Internal Controls

- Supervisory review over register of warrants and list of approved bills is lacking
- County discontinued its blanket fidelity bond last year due to cost and lack of losses





# Recommendations 7 & 8

- Establish supervisory review of warrant registers and list of approved bills
- Consider periodic review of need for blanket fidelity bond for county employees



# Executive's Response

- Executive concurs with all recommendations.
- Implementation schedule for each recommendation is established.



# Performance Audit—Phase II

To explore efficiency and effectiveness issues, particularly

- ☐ Claims administration
- ☐ Safety and loss prevention in the workplace
- ☐ Return-to-work program



# THANK YOU!

- Management and staff of Workers' Compensation Program, Human Resources Division, Finance and Business Operations Division, and Office of Risk Management